



# Examination Report: California Teleconnect Fund Compliance Examination of CallTower, Inc.



## Table of Contents

Independent Accountants' Report .....	i
<b>CALIFORNIA TELECONNECT FUND COMPLIANCE.....</b>	<b>1</b>
Executive Summary .....	2
Introduction .....	4
The CTF Program .....	4
Examination Engagement Processes.....	7
<i>Risk Based Approach</i> .....	8
Findings and Recommendations .....	10
<b>APPENDIX A – PROCEDURES PERFORMED .....</b>	<b>18</b>
List of Records Obtained .....	19
Summary of Procedures Applied .....	20
<b>APPENDIX B – CARRIER RESPONSE.....</b>	<b>23</b>

## Independent Accountants' Report

California Public Utilities Commission  
San Francisco, California

We have examined CallTower Inc.'s (CT's) compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to program costs and cost related activities for the fiscal year ended June 30, 2010. CT is responsible for compliance with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities. Our responsibility is to express an opinion on CT's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about CT's compliance with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on CT's compliance with specified requirements.

Our examination disclosed material noncompliance from the required compliance guidelines as CT did not correctly apply the CTF discount guidelines to eligible services provided. The impact of these errors resulted in CT over claiming funds of \$231,292 from the CTF program during the period July 1, 2009 to June 30, 2010. Specifically, we noted the following:

- CT failed to demonstrate compliance with Resolution T-16742, Senate Bill 1102, Decision 08-06-020, and Resolution T-17314. Specifically, CT submitted CTF claims to the CPUC for the period July 1, 2009 to June 30, 2010 in excess of amounts that should have been claimed under the applicable CTF rules.
- CT failed to demonstrate compliance with Decision 96-10-066. CT claimed the CTF discount on an ineligible service, "Conference Phone".
- CT failed to demonstrate compliance with Resolution T-16763. Specifically, CT claimed CTF discounts in excess of the amount of the discount actually provided to one of its school customers.

In our opinion, because of the effect of the noncompliance described in the preceding paragraph, CT has not complied with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) Program solely related to CT's program costs and cost related activities for the fiscal year ended June 30, 2010.

CT's responses to the findings identified in our examination are described in the accompanying Schedule of Findings and Recommendations. CT's responses were not subjected to the procedures applied in the examination of the compliance with the requirements described above, and accordingly, we express no opinion on them.

*Crowe Horwath LLP*  
Crowe Horwath LLP

San Francisco, California  
April 8, 2014

# California Teleconnect Fund Compliance

## Executive Summary

The California Public Utilities Commission (CPUC) contracted with Crowe Horwath LLP (Crowe) to conduct an examination on CallTower, Inc.'s (CT's) compliance with the rules, regulations, and requirements of the California Teleconnect Fund (CTF) program solely related to CT's program costs and cost related activities pursuant to services provided during the program year ended June 30, 2010.

During our procedures, we noted exceptions with respect to CT's compliance with the CTF program requirements. In total CT overclaimed and received \$231,292 too much from the CTF program for the fiscal year ended June 30, 2010. CT should refund this amount to the CTF. Our observations are included in the **Findings and Recommendations** section of this report. The following is a brief summary of our key findings:

1. CT failed to demonstrate compliance with Resolution T-16742, Senate Bill 1102, Decision 08-06-020, and Resolution T-17314. Specifically, CT submitted CTF claims to the CPUC for the period July 1, 2009 to June 30, 2010 in excess of amounts that should have been claimed under the applicable CTF rules. This resulted in an overpayment of \$231,033 by the CTF program.
2. CT failed to demonstrate compliance with Administrative Letter 17. Specifically, nine of the monthly reimbursement claim forms CT filed with the CPUC for the fiscal year 2009-2010 include a Variance Report with mathematical errors. These errors, however, have no monetary impact on CT's CTF reimbursement.
3. CT failed to demonstrate compliance with Administrative Letter 17. Specifically, the Rate Report included with each of CT's 12 monthly claim forms and one adjusted claim form submitted to the CPUC for fiscal year 2009-2010 did not include the required list of de-tariffed services.
4. CT failed to demonstrate compliance with Resolution T-16763. Specifically, the Customer Report included with five of CT's the monthly CTF claim forms for fiscal year 2009-2010 excluded certain required data on certain eligible customers.
5. CT failed to demonstrate compliance with Decision 96-10-066. CT claimed the CTF discount on an ineligible service, "Conference Phone". This resulted in an overpayment of \$36 by the CTF program.
6. CT failed to demonstrate compliance with Resolution T-16763. Specifically in CT's recalculated claim files, CT claimed CTF discounts in excess of the amount of the discount actually provided to one of its school customers. This resulted in an overpayment of \$223 by the CTF program.
7. CT failed to demonstrate compliance with Administrative Letter 17. Specifically, The Customer Report tab of CTF monthly claim forms submitted to the CPUC by CT omitted three CTF eligible organizations that received CTF discounts.

In addition to refunding \$231,292 to the CTF for the over-claimed and over-reimbursed amounts, CT should:

1. Change its monthly process for calculating CTF reimbursement claims. Specifically, CT should implement:
  - A review of CTF discounts applied by customer, by service.
  - A comparison between detailed data and actual customer invoices for accuracy;

California Teleconnect Fund Compliance  
CallTower, Inc.

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- A review of new or changed services for eligibility requirements with CPUC;
  - A verification of E-Rates application to either the customer specific files or the applicable average state rate; and
  - An exclusion of non-allowable taxes and fees from CTF reimbursement claims.
2. Implement a policy to review each monthly CTF reimbursement form for mathematical accuracy and data completeness.
  3. Review Administrative Letter 17 and ensure that it is compliant with all rules and requirements of that letter. CT should then complete the Rate Report form each month, including a listing of all de-tariffed services and all de-tariffed service rates, and include the Rate Report form with each monthly reimbursement claim filed with the CPUC.
  4. Remove Conference Phone from its list of eligible services. Whenever new services are offered to customers (including services that are offered in connection with the acquisition of a business), CT management should review the list of new services for conformity with CTF eligibility rules. If questions arise on a specific service, CT should seek written clarification from the CPUC on that service.
  5. Implement a process to review claims prior to submission to ensure the amounts being claimed do not exceed the amounts of the discounts actually provided to customers.
  6. Review its list of CTF customers, and ensure that the names and application numbers of all CTF customers receiving discounts are properly displayed on the claim forms.
  7. Implement quality reviews of its monthly claims before submission to the CPUC.

## Introduction

The CPUC periodically conducts audits of CTF carriers, pursuant to California Public Utilities Code Sections 274 and 314. The CPUC selected CT as one of the utilities to be audited for the 2009-2010 examination period

CT is a privately held corporation providing hosted enterprise-class unified communications solutions for businesses in the United States of America. CT was formed in 2002 and is based in South Jordan, Utah.

During the examination period (fiscal year 2009-10), CT provided telecommunications services to 41 different CTF customers (as measured by application numbers). These customers consisted entirely of schools and Community Based Organizations (CBO). CT's CTF claims totaled \$865,353 during the examination period.

## The CTF Program

In Decision 96-10-066, the CPUC established the CTF program. The CTF program allows eligible public libraries, K-12 public and private schools, California community colleges (CCC), government-owned hospitals and health clinics, CBO, and California Telehealth Networks (CTN) participants to receive a 50% discount on select telecommunication and internet access services.

The CTF program is overseen by the CPUC's Communications Division, and its operations are modified through regulatory decisions and administrative letters. The program is funded by a surcharge (0.079% during the examination period) assessed by wireline and wireless telecommunications carriers on specific services and consumers' intra-state phone bills.

To receive the CTF discount, customers must apply to the CPUC for approval to participate in the CTF program. If approved, the CPUC provides the customer an approval letter and number, which the customer presents to their service provider to obtain the discount. Approved customers are then eligible to receive their CTF discount as of their application (i.e., filing) date with the CPUC, provided they notify their carriers of acceptance in a timely manner. Service providers apply the discount to their eligible customers, and are later reimbursed through the CTF program by submitting claims to the CPUC.

The CPUC established the services that are eligible for the CTF Program in Decision 96-10-066 and expanded and clarified those services in subsequent decisions. The CTF-eligible services include the following:

- Measured Business service lines and basic Voice over Internet Protocols;
- Integrated Services Digital Network (ISDN);
- Switched 56 lines;
- DSL, T-1, DS-3, up to and including OC-192 services (high speed, high capacity lines);
- Internet access services;
- Multiprotocol Label Switching (MPLS) in conjunction with another CTF-eligible service; and



- Functional equivalents of these services, which may vary between service providers.

Carriers are required to charge qualified CTF customers at a rate that is 50% below tariff rates on tariffed CTF eligible services or at a rate that is 50% below regular service rates on non-tariffed CTF eligible services. Tariff rates are the intrastate rates that the local exchange service providers and many long-distance service providers file with the CPUC. Service providers file tariff changes by Advice Letter provided to the CPUC's Communications Division. Tariffs contain the rates, terms, and conditions of certain services provided by telecommunications carriers.

Non-tariffed rates are the public or published rates that are not regulated. The carrier has the flexibility with charging the customers for the services that are not regulated.

The CTF discount also applies to carrier specific charges, such as company specific surcharges or surcredits, the CPUC user fee, the federal excise fee, the 9-1-1 fee, and local or city-specific taxes. Services not eligible for the CTF discount include, but are not limited to, nonrecurring charges (e.g. installation charges) and usage charges.

The Federal government also provides eligible entities (schools, libraries and CBOs that offer the Head Start program) a similar discount on eligible telecommunications charges (known as the education rate, "E-rate", or the Universal Service Fund). E-rate discounts can range from 20% to 70%. The CTF discount is to be applied to eligible charges after the application of the E-rate discount. A library or school must apply for the E-rate discount, but if a library or school did not apply for the E-rate discount or if their application is pending, the carrier must first apply the statewide average E-rate discount, which was 70% during our examination period, before applying the CTF discount.

For carriers seeking reimbursement from the CTF program, the CPUC established monthly claim reporting and submittal requirements. These requirements include completing and submitting a CTF claim form to the CPUC. Claims are submitted after providing the CTF discount to eligible customers.

Carriers need to retain important information, such as pricing, tax, surcharge, E-rate percentages, and other CTF-claim related information, on a per customer, per service basis, readily available for at least five (5) years in accordance with the Public Utilities Commission of the State of California General Order No. 28.

On December 5, 2008, the CPUC adopted changes to CTF reimbursement claim protocol and to the claim form in Administrative Letter 17. Administrative Letter 17 specifies that each reimbursement claim -- a multi-tab, Excel workbook -- should include a cover letter; a claim form; a customer report; a services report; a service rate report, and a variance report. Each of these tabs has required data elements, such as customer names, categories, and CTF application numbers for the customer report. Claims filed during the examination period should follow the revised claim reimbursement protocol and utilize the revised claim form.

Changes to the CTF program are formally adopted through legislation, Resolutions, modifications to the Public Utilities Code and Administrative letters. We have summarized below the major changes to the CTF program since its inception.

California Teleconnect Fund Compliance  
CallTower, Inc.

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1. **Decision 96-10-066** established the CTF in compliance with Assembly Bill 3643 (Chapter 278, Statute 1994) to provide discounts on selected telecommunications services to qualified entities.
2. **Resolution T-16319** changed the filing requirement for the submission of claims to a maximum of 45 days for eligibility of receiving interest payments from CPUC; determined that telecommunications carriers shall receive interest when the administrative committee fails to complete its review and approval of a CTF claim within one calendar month; and determined that the CTF discount for bundled service offerings shall be based on either the bundled offering or the unbundled tariff rate for access line type services, whichever is lower.
3. **Public Utilities (PU) Code Sections 270-281**, as codified in October 1999 by the enactment of Senate Bill 669, require that the monies in the CTF only be disbursed pursuant to PU Code Sections 270-281 (pertaining to the operation of California's universal service programs) and upon appropriation in the annual State of California Budget Act.
4. **Rulemaking 01-05-046** investigated the "feasibility of redefining universal telephone service by incorporating two-way voice, video, and data service as components of basic service" and how the CTF program might be revised to better support this objective.
5. **Resolution T-16742** complied with portions of Senate Bill 1863 – intended to provide educational institutions, health care institutions, community-based organizations and governmental institutions with access to advanced telecommunications services – by equalizing the CTF discount available to all program participants at 50%, and added health clinics owned by operated by a hospital district to the list of qualifying entities.
6. **Resolution T-16763** shortened the time frame for telecommunications carriers to file reimbursement claims from the CTF from two years forty-five days to one year forty-five days from the end of the month for which the claim is made; revised the format of the CTF claim worksheet; ordered carriers to discount services to CTF customers upon notification of customer eligibility and prior to submitting reimbursement claims; adopted rules that carriers may impose on E-rate customers who wish to also receive CTF discounts; specified when carrier claims will be eligible for interest and provides direction for carriers wishing to claim interest; and eliminated the filing of adjustment claims except in specified circumstances.
7. **Administrative Letter No. 15**, dated December 1, 2006, implemented in part PU Code Section 884 setting aside funds on a first come, first serve basis for nonrecurring installation costs for high-speed broadband services for eligible community organizations.
8. **Senate Bill 1102** added section 884.5 to the PU Code including a provision requiring carriers to first apply the Federal actual or statewide average E-rate discount – regardless of whether the customer has applied for or been approved – prior to applying the CTF discount to certain eligible services subscribed to by schools and libraries. (**Administrative Letter 10B** provides further clarification on the application of the E-Rate discount and application procedure.)

9. **Administrative Letter No. 11**, dated February 1, 2006, revised the CTF claim procedure through a simplified claim form supported by new variance and management reporting.
10. **Resolution T-17142** issued on April 24, 2008, reduced the CTF surcharge rate from 0.130% to 0.079%.
11. **Rulemaking 06-05-028** involved a comprehensive review of the Telecommunications Public Policy Programs, including the CTF, which led to Decision 08-06-020.
12. **Decision 08-06-020** directed several key changes to the CTF program including: an expansion of CTF-eligible services; the removal of CTF tariff requirements for all carriers providing CTF-eligible services on a detariffed or non-regulated basis; the inclusion of CCC, CTN and non-profit CBO; a cap on total CTF discounts received by CCC; and allowed partnering in the CTF program between Internet Service Providers and registered telecommunications carriers.
13. **Administrative Letter No. 17** dated December 5, 2008 made additional revisions to the claim form established by Administrative Letter No. 11 including: reformatting to present the claims per customer group and per fiscal year in a table; adding CCCs as customer groups; disclosing important information concerning the funding limitations for CTF discounts received by CCCs; and dividing schools and libraries into two separate customer groups.
14. **Resolution T-17314** adopted a policy requiring that Federal Communications Commission program support or discounts be deducted from the CTF service charges incurred by eligible non-profit CBOs and rural health care providers prior to computing the CTF discount.

## Examination Engagement Processes

The CPUC selected Crowe to conduct an examination and issue an opinion on CT's compliance with the rules, regulations, and requirements of the CTF program solely related to program costs and cost related activities for services provided during the fiscal year ended June 30, 2010. This examination was performed in accordance with AICPA standards for compliance examinations, under the direction of the CPUC's Division of Water and Audits.

### Purpose

The CPUC provided two main objectives for this project, as follows:

Objective Number 1: Determine compliance with CPUC's directives related to:

- The timeliness of CT's CTF claims;
- The completeness of CT's CTF claims with respect to format and included data elements as provided in Administrative Letter 17;
- The eligibility of organizations receiving CTF discounts;
- The reasonableness of tariffed and non-tariffed CTF eligible service rates including bundled and unbundled services;

- The eligibility of services receiving CTF discounts; and
- The proper application of E-rate.

Objective Number 2: Test the accuracy of CTF program discounts given to customers and resulting reimbursements claimed against the CTF program by the carrier.

We accomplished both objectives through a combination of analyzing the data on CT's CTF claims (e.g., ascertaining the eligibility of included customers and services and the mathematical accuracy of calculations) and evaluating a sample of CT's CTF customer records including customer invoices and payments. We derived the criteria by which to measure both objectives from the CPUC's CTF program directives including Assembly and Senate Bills, Rulemakings, Decisions, Resolutions and Administrative Letters governing the CTF program.

#### Scope

As discussed above, our examination period covered July 1, 2009 through June 30, 2010. The examination population consisted of all customers included in CT's twelve monthly claims and one adjusted claim to the CPUC.

During the examination period, CT submitted reimbursement claims for 41 unique customers (as measured by application numbers) consisting of 24 CBO and 17 schools. In total, these customer claims included a total of 32,420 customer service lines for the period of July 1, 2009 through June 30, 2010. We selected a sample of customer services for testing (i.e. each selection represented a unique service provided to a customer for a specific month). Though our sample was selected for an individual service, we tested all services provided to that customer for the month selected. If a customer monthly claim involved multiple invoices (i.e. multiple locations are invoiced separately under the same customer number) all invoices for that customer were included as part of our testing.

#### Risk Based Approach

Crowe utilizes a risk based approach for conducting examinations. As part of this risk-based approach, we assess risks during the planning phase and re-assess risks throughout the examination. As such, our planning activities included establishing and documenting an overall examination strategy, developing a detailed written examination plan; and determining the extent of involvement of professionals with specialized skills. Based on the risks identified, we designed and implemented overall responses to address our assessed risks of material non-compliance with the rules and regulations of the CTF program and we performed examination procedures whose nature, timing, and extent were based on, and are responsive to, the assessed risks of non-compliance.

#### Examination Procedures

Our procedures performed for this engagement are provided in more detail in **Appendix A – Procedures Performed**.

#### Sampling Methodology

Our sampling methodology for this examination was based on guidance from the American Institute of Certified Public Accountants - Government Auditing Standards and Circular A-133 Audit Guide - Chapter 11: Audit Sampling.

Sampling is the application of an examination procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some

characteristic of the balance or class. In other words, sampling may provide the accountant an appropriate basis on which to conclude a characteristic of a population based on examining evidence regarding that characteristic from a subset of the population.

It is important to note that sampling is one of many techniques designed to provide sufficient appropriate examination evidence to support our compliance opinion. We often do not solely rely on the results of any single type of procedure to obtain sufficient appropriate evidence on compliance. Rather, our conclusions may be based on evidence obtained from several sources and by applying a variety of testing procedures. Combined evidence obtained from the various types of procedures to determine whether there is sufficient appropriate evidence to provide an opinion on compliance.

Our sampling methods used a combination of both random and judgmental sampling. Judgmental sampling was utilized to test individually important items. Specifically, we used the judgment and experience in examining a population for risky or unusual transactions for testing. These individually important items were selected based on our risk assessment and based on the data analytics that were completed during the examination.

When sampling is used to test transactions sampling risk exists. Sampling risk represents the risk that the sample is not representative of the population. In other words, that the evaluation of a population based on an sample is different from what it would be if the entire population was tested. Based on a statistically valid sample, our sampling methodology is designed to provide a high level of assurance (90 - 95%) in accordance with the AICPA Audit Guide's guidance on Sampling.

## Findings and Recommendations

In planning and performing our examination of CT's compliance with the rules, regulations, and requirements of the CTF Program solely related to program costs and cost related activities related to services provided during the fiscal year ended June 30, 2010, we noted items that we considered to be reportable to CPUC's management. This section of our report provides a listing of these findings.

### ***Finding 1: Pervasive Errors in CTF Claims***

#### Condition

CT submitted CTF claims to the CPUC for the period July 1, 2009 to June 30, 2010 in excess of amounts that should have been claimed under the applicable CTF rules and regulations. Specifically, during our testing of CTF claims, Crowe noted numerous differences between the amount of CTF discount claimed by CT and the amount of CTF discount that was calculated based on the rules and regulations of the CTF program. Due to the large amount of unexplained differences, Crowe requested that CT recalculated 100% of its CTF customer discounts during the examination period. In response, CT performed a recalculation of 100% of its CTF customer discounts during the examination period. The process utilized by CT to conduct this recalculation was to:

- exclude unallowable taxes and fees,
- exclude ineligible services (including ineligible bundled services), and
- properly include the E-Rate discount prior to the CTF discount for E-Rate eligible customers.

Upon completion of this 100% recalculation, Crowe noted that CT claimed an additional \$231,033 in CTF discounts than the calculated amount of allowable CTF discounts.

#### Criteria

Various authoritative documents including, Resolution T-16742, Senate Bill 1102, Decision 08-06-020, and Resolution T-17314 establish rules for how the CTF discount should be measured and applied. In combination, these rules require the carrier to determine which specific customers and services are eligible for the CTF discount, and calculate the discount after consideration of any applicable customer discounts, the E-Rate, and other factors.

#### Cause

CT did not have effective internal controls in place to ensure the accuracy of CTF claims. As a result, the basic data used to measure the CTF claim was inaccurate (it did not agree to actual amounts billed on the customer invoice) and the methods used to calculate the CTF claims were inconsistent and also inaccurate.

#### Effect

The CTF reimbursement claimed by CT for the period July 1, 2009 to June 30, 2010 was \$231,033 more than the amount that should have been claimed under the applicable CTF rules.

### Recommendation

CT should refund the \$231,033 over-reimbursement that resulted from its inaccurate claims to the CTF. In addition, CT should change its monthly process for calculating CTF reimbursement claims. Specifically, CT should implement:

- A review of CTF discounts applied by customer, by service;
- A comparison between detailed data and actual customer invoices for accuracy;
- A review of new or changed services with respect to the CPUC's eligibility requirements.
- A verification of the application of E-Rates to either the customer specific files or the applicable average state rate; and
- The exclusion of non-allowable taxes and fees from CTF reimbursement.

The pervasive nature of the errors suggests that CTF reimbursement claims filed outside of fiscal year 2009-2010 may contain similar errors. Therefore, CT should recalculate CTF claims from July 1, 2007 through the most recent claim filed as of the date of this report. CT should disclose the impact of these recalculations with the CPUC.

### Management Response

Historically, CallTower had gone through "spot audits" with the CPUC at a single customer level, with an itemized list of services. At that time, CallTower requested feedback from the CPUC that all filings were correct and received no information that any of these filings were incorrect. In 2011, the CPUC reevaluated the services CallTower provides to customers. Through many discussions, a revised list of eligible services was provided to CallTower.

As a result, CallTower has implemented a procedural guide which lists out specifically which services to include as eligible for the CTF calculation. This guide provides a consistent methodology of mining data and factoring the appropriate discounts. Part of this process also includes the comparison between detailed data and actual customer invoices for accuracy. With respect to the new or changed services, and the application of the E-Rates, CallTower maintains a matrix (containing service offering SKUs and applicable E-Rate discount percentages), which is updated on a monthly basis prior to factoring CTF discounts. We review and evaluate all administrative letters from CPUC to ensure that our matrix is current and up to date with CTF eligibility requirements. Additionally, when we create a new service offering for our customers, CallTower contacts the CPUC to ensure we are complying with CTF eligibility requirements with respect to such new service offering. The information we gather includes non-allowable taxes and fees to ensure proper exclusion from CTF reimbursement.

## ***Finding 2: Mathematical Accuracy of Variance Reports***

### Condition

Nine of the monthly reimbursement claim forms CT filed with the CPUC for the fiscal year 2009-2010 include a Variance Report with mathematical errors. One section of the monthly Variance Reports compares the total amount of the CTF reimbursement claimed for the month against the average monthly claim for 2008-2009. In nine instances, the total monthly claim for each of those nine months was incorrectly listed as \$61,024 instead of the actual amount of the CTF reimbursement claimed for the month.

### Criteria

Administrative Letter 17, dated December 5, 2008, outlines a revised method for submitting CTF claims and includes a copy of the CTF monthly reimbursement claim form in Microsoft Excel format. On the Variance Report tab of the claim form is a section entitled "Average Monthly Claim for Fiscal Year 2008-2009 compared to current claim." This section requires that the current monthly claim be entered.

### Cause

Each monthly claim form is created manually by CT employees. These nine Variance Reports appear to have not been updated with current claim totals.

### Effect

These errors had no impact on the monthly CTF reimbursement amount claimed by CT during 2009-2010. However, the inaccurate reporting increases the risk that unusual fluctuations in the monthly amount of claims will not be identified and investigated on a timely basis.

### Recommendation

CT should implement a policy to review each monthly CTF reimbursement form for mathematical accuracy.

### Management Response

At the time of the audit, an automated process was in place in our billing system in order to calculate the CTF discount. As we began to see errors in the calculation of the discount systematically, we discontinued using the systematic calculation and implemented a robust manual calculation on the morning of billing close. As a result of the newly implemented manual process, CallTower made corrections to the previously invoiced discounts. The corrections addressed charges that spanned fiscal years and months within each fiscal year. A post billing review of all calculations was also implemented to verify the claim was correct, with steps added to correct the customer claim the following month if errors were found.

As noted above, CallTower has implemented a procedural guide which includes a step to manually review the data populated in the claim fields. Additionally, we have added a manual step to update "Average Monthly Claim for Fiscal Year 20XX-20XX," located on the Variance Report tab of the claim form. This includes tracking and reviewing information in an Excel spreadsheet with the breakout of CTF claims by month for each customer.



### ***Finding 3: CTF Claim Rate Reports***

#### Condition

The Rate Report included with each of CT's 12 monthly reimbursement claim forms and one adjusted reimbursement claim form submitted to the CPUC for fiscal year 2009-2010 did not include the required list of de-tariffed services. In addition, rates for de-tariffed services were not included in either the Rate Report or an online guidebook. The CTF monthly reimbursement claim forms follow a prescribed format and contain required data elements set out by the CPUC in Administrative Letter 17.

#### Criteria

CPUC CTF Administrative Letter 17 outlines the method for submitting CTF claims. Under the "Rate Report & Guidebook" section, the letter states that "the rate (monthly recurring charge) of any de-tariffed or unregulated service that receives the CTF discount must either be listed within the Rate Report and/or a Guidebook. If the carrier chooses to report the information via a Guidebook, the Guidebook must be made available to the CPUC as part of the claim submission. In order to do so, the carrier should disclose the Uniform Resource Locator (URL) address (on the Rate Report) of an online version of the Guidebook. The Guidebook should be archived in a fashion that allows the CD to retrieve pricing information for a specific month for up to 5 years."

Administrative Letter 17 also states that, "Every claim submission is required to include a Rate Report for each fiscal year claimed".

#### Cause

Management of CT was not aware that the Rate Report was required to be completed for CT and included within each monthly reimbursement claim form.

#### Effect

These errors had no impact on the monthly CTF reimbursement amount claimed by CT during 2009-2010. CT did not report required CTF components to the CPUC related to their de-tariffed services. Therefore, CPUC could not properly analyze CT's de-tariffed services and whether the rates for these de-tariffed services were reasonable. This increases the risk that CT may file claims for ineligible and/or over-charged services and the error(s) may not be detected by the CPUC.

#### Recommendation

CT should review Administrative Letter 17 and ensure that they are compliant with all rules and requirements of that letter. CT should then complete the Rate Report form each month, including a listing of all de-tariffed services and all de-tariffed service rates, and include the Rate Report form with each monthly reimbursement claim filed with the CPUC.

#### Management Response

CTF advised in early 2011 that CallTower was not in compliance with rate reports. CallTower rectified this upon notification.

In accordance with the governing CTF rules, CallTower now includes the price range for the unregulated services provided to CallTower's customers. This information is now captured in the CTF Claim 'Rate Report Month 'YY' tab.

#### ***Finding 4: Incomplete Customer Data***

##### Condition

The Customer Report included with five of CT's monthly CTF reimbursement claim forms for fiscal year 2009-2010 excluded certain required data on certain eligible customers. Specifically, we found nine instances where an eligible customer was included in a Customer Report without the required "customer type" field completed. In addition, we found one instance where an eligible customer was included in a Customer Report without the required "application number" field completed.

##### Criteria

Resolution T-16763, Ordering Paragraph No. 3 requires carriers to file the approved CTF reimbursement claim form. Instructions for the CTF reimbursement claim form define filing to include the "Completed CTF Claim Form" and also stipulate that "The telecommunications carrier should complete all necessary information necessary for the receipt of a check."<sup>1</sup>

##### Cause

This matter was a human error due to the manual process of completing the monthly CTF claim form.

##### Effect

These errors had no impact on the monthly CTF reimbursement amount claimed by CT during 2009-2010. However, incomplete reporting increases the risk that ineligible customers will be included in the monthly CTF reimbursement claim, and increases the risk that payments to CT will be delayed.

##### Recommendation

CT should implement a policy to review each monthly CTF reimbursement form for the completeness of data.

##### Management Response

As noted above, CallTower has implemented a robust review for the entire population of required data on the Customer Report. Moreover, CallTower's process when adding new eligible customers requires the addition of the customer and the associated application numbers to the monthly matrix updates. This process ensures that only eligible customers—i.e., those customers with an Application Number—are contained therein.

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<sup>1</sup> See Page 7 of Resolution T-16763.

***Finding 5: Ineligible Service Claimed***

Condition

During our testing of the recalculated claim files provided by CT, Crowe noted that CT claimed the CTF discount on an ineligible service, "Conference Phone".

Criteria

Decision 96-10-066 specified that CTF discounts be provided for measured business service, switched 56, Integrated Services Digital Network (ISDN) service, T-1 service, and DS-3, or their functional equivalents.

Cause

CT obtained some of its CTF customers through a company acquisition and at the time of the examination period was unfamiliar with the CTF program, its rules, and requirements.

Effect

Improper identification of services as CTF eligible services increases the likelihood that CTF discounts could be claimed on these services thus resulting in overpayments made by the CPUC. During the audit period one claim was made for the Conference Phone service, resulting in an overpayment to CT of \$36.

Recommendation

CT should remove Conference Phone from its list of eligible services. Whenever new services are offered to customers (including services that are offered in connection with the acquisition of a business), we recommend that CT management review the list of new services for conformity with CTF eligibility rules. If questions arise on a specific service, CT should seek written clarification from the CPUC on that service. The revised CTF claim for this customer should be adjusted downward \$36, and the refund due to the CTF should be increased accordingly.

Management Response

CallTower has removed Conference Phone from its list of eligible services. Moreover, as noted in the response to Finding 1, CallTower regularly reviews the list of services provided to confirm that they are correctly flagged as eligible or ineligible.

***Finding 6: CTF Claim in Excess of Discount Provided***

Condition

During the testing of the recalculated claim files provided by CT, Crowe noted that for one customer CT claimed CTF discounts in excess of the amount of the discount actually provided to the customer. Any claim submitted by CT is limited to the amount of discount actually provided to the customer. We also noted that during the period July 1, 2009 to June 30, 2010, all other customers except for this one, were provided discounts in excess of the CTF claims (as revised).

Criteria

Finding 11 of CPUC Resolution T-16763 states that "[t]he requirement that carriers provide discounts upon approval to eligible CTF customers prior to filing claims on behalf of that customer has been implicit, is now explicit and applies to all claims."

Cause

CT did not have effective internal controls in place to ensure the accuracy of CTF claims. As a result, the basic data used to measure the CTF claim was inaccurate and the methods used to calculate the CTF claims were inconsistent and also inaccurate.

Effect

During the period July 1, 2009 to June 30, 2010, CT claimed (as revised) \$668 as a CTF discount for this customer. However, the customer only received a discount of \$445 on its invoices during that period. Accordingly, the revised CTF claim for this customer should be adjusted downward \$223, and the refund due to CPUC should be increased accordingly.

Recommendation

CT should adjust its recalculated claims and refund the CTF program for this amount. In addition, CT should implement a process to review claims prior to submission to ensure the amounts being claimed do not exceed the amounts of the discounts actually provided to customers.

Management Response

CallTower's established procedural guide provides for the calculation, application and claim submission for CTF related charges. As such, an internal control now exists whereby the same calculations applied to the customer's invoice is utilized in the claim form process—specifically, that the total sum of credit applied reconciles against the total sum of the reimbursement claim. This control now ensures that no such discrepancy occurs.

***Finding #7: Omission of 3 CTF eligible organizations***

Condition

The Customer Report tab of CTF monthly claim forms submitted to the CPUC by CT combined the discounts provided to three schools with their parent organization instead of reporting them individually.

Criteria

CPUC CTF Administrative Letter 17, dated December 5, 2008, outlines a revised methodology for submitting CTF claims. Specifically, the letter describes that under the "Customer Report" tab, there are four columns that should be completed for inputting customer data: the "Customer Type," the "Applicant Name," the "Application Number," and the "CTF Discount."

Cause

Due to the manual process of creating claims used by CT, these customers were combined for ease of reporting.

Effect

Since the CTF reimbursements were provided to these customers' parent organization, these errors had no financial impact on the CTF program or on the customers.

Recommendation

CT should review its list of CTF customers, and ensure that the names and application numbers of all CTF customers receiving discounts are properly displayed on the claim forms. CT additionally should implement quality reviews of its monthly claims before submission to the CPUC.

Management Response

Prior to the 2011 audit, the communication between CallTower's Billing and Claims Processing departments was lacking a step to confirm new installs for all CTF eligible locations as these customer locations were typically added by CallTower's Customer Support department. Consequently, CallTower implemented a review of each customer at a corporate level to confirm all related locations had the correct discount applied. CallTower's established procedural guidelines, as described in Finding 4 above, represent an internal control to ensure that each customer is associated with the appropriate Application Number for the CTF Claim population.

## **Appendix A – Procedures Performed**

## List of Records Obtained

Records obtained for our CT testing procedures included:

- The twelve (12) monthly claims and one (1) adjusted claim obtained from the CPUC that were filed by CT during the examination period.
- CPUC's CTF Claim Tracking.
- Service revenue report for nontariffed customers – This report detailed service charge rates for non-CTF customers for the same services provided to CTF customers within our sample.
- Detailed electronic data reports provided by CT that support each customer's CTF discount on every monthly claim. These data reports included each CTF customer's:
  - application number;
  - organization name;
  - organization type;
  - account number;
  - telephone number;
  - CTF service classification;
  - Service classification/description;
  - Service quantities;
  - Unit price of service;
  - E-rate discount percentage;
  - E-rate discount;
  - CTF discount after E-rate;
  - CPUC User Fee;
  - 911 Tax;
  - Federal Excise Tax;
  - local tax; and
  - monthly claim amount for each organization and service claimed.
- The crosswalk provided by CT between CT's specialized communications services and the CPUC's list of CTF-eligible services CT's tariffed rate schedules obtained from CT that correspond to the examination period.
- Customer invoices supporting each of the 126 customer-month selections included in the sample selection made by Crowe.
- Payment support documents from CT to confirm customer payments for 56 sampled invoices.
- CT Bank Statements that contained CPUC payments for the CTF program
- Form 486 for E-rate eligible customers within our sample
- The revised calculation of all CTF claims for fiscal year 2009-2010 (Revised Calculation) provided by CT.

## Summary of Procedures Applied

Our engagement was divided into three phases. The first phase of our project consisted of completing an off-site data analysis on data provided by the carrier and testing supporting documentation. The second phase involved on-site visits to CT to perform additional testing and procedures over compliance. The third phase involved on-site visits to CT to verify the accuracy of CT's calculation of the impact of errors detected in the second phase.

In the first (data analysis) phase, Crowe designed, developed and populated a CTF claims database. The database captured available data from CT's Fiscal Year 2009-10 monthly claims, as well as supporting information from CT and the CPUC including CTF-eligible organizations (including application date, CPUC number, and approval date) and CTF-eligible services and their functional equivalents. Crowe analyzed this data to identify anomalies that might indicate problems with CT's data and conducted compliance tests, as described in the following sentence, of the data that supplemented our field work. Crowe used the CTF claims database to test the timeliness of each CTF claim; the eligibility of CT's CTF customers and services; the correct application of the E-rate; the accuracy of the math underlying each claim; and the completeness of the claim format.

The second phase involved on-site visits to CT during the weeks of December 17, 2012 and January 21, 2013. During the on-site visits, Crowe conducted an entrance conference with CT to confirm the scope and extent of our procedures, and requested documentation. We tested a sample of claims and their supporting invoices with respect to the CTF-eligibility of organizations and services including bundled services; non-tariffed prices; application of the E-rate; and the adequacy and accuracy of reimbursement claims. During this phase, we discovered that CTF claims submitted to the CPUC for the fiscal year 2009-2010 included significant and pervasive errors. As a result, the CPUC requested that CT recalculate all claims submitted to the CPUC for the fiscal year 2009-2010 to correct these errors. CT agreed to this request and in response, provided us a file referred to as the "Revised Calculation."

The third phase involved an on-site visit to CT during the week of April 29, 2013. During this visit, we obtained the Revised Calculation schedule from CT. We tested a sample of claims in the Revised Calculation and their supporting invoices with respect to the CTF-eligibility of organizations and services including bundled services; application of the E-rate; and the adequacy and accuracy of reimbursement claims.

CPUC listed the main objectives for this project regarding the accuracy of the claims and the compliance with administrative directives. Below, we have provided a summary of these objectives and our approach to meet these objectives as part of our testing procedures.

### ***Objective 1: Compliance with the CTF's Administrative Directives***

1. Determine whether the carriers filed their original CTF claims with the timeframe specified in Resolution T-16763, Ordering Paragraphs (OP) 1-2.

#### Approach

We tested each monthly claim filed during the engagement period to determine if the claim for reimbursement was filed within the required timeframe per Resolution T-16763,



Ordering Paragraphs, 1-2. Resolution T-16763 requires the reimbursement claim be filed within one (1) year and forty-five (45) days from the period being claimed.

2. Determine whether the format of the carrier's CTF claim is in conformance with the CPUC's directives, specifically Administrative letters 11 and 17 as well as Decision 08-06-020, the claim contains all required elements, and contains complete supporting information.

Approach

We tested each monthly claim filed during the engagement period to determine if the claim was prepared in conformity with the Commission's directives and contained all required elements. For each claim, we then tested whether the claim was filed on the CPUC approved Claim Form and that the claim form was complete. We additionally tested that CT had properly filed all the annual Customer Report and Service Report as required by Administrative Letter 17. Finally, we tested if the Rate Report and/or Guidebook was properly included with the claims filed during the engagement period.

3. Determine whether the carriers are in compliance with the CPUC's directives, Decisions 96-10-066 and 08-06-020, and Resolutions T-16763, and T-16742, in providing CTF discounts to the CPUC's approved CTF eligible organizations only after the CPUC's approval dates.

Approach

For each customer selected, we tested if the customer was approved to receive the CTF discount and that the discount was provided to the customer only after the CPUC's approval date. We tested CPUC's approval dates for the 41 unique CTF-customers, as listed on the CPUC's website, to determine whether CPUC approval occurred prior to CT's provision of any CTF discount.

4. Determine whether the carriers' tariffs are in compliance with the CPUC's directives, Decision 08-06-020, and provide that the rates for qualifying schools, libraries, government owned hospitals and health clinics, and CBOs for CTF eligible services are 50% below the rates charged to other business for those same services or their functional equivalents.

Approach

For each invoice selected for testing, we compared the amount billed for eligible services to Tariffed rates or if a de-tariffed service to published rates or to rates charged to other customers for similar services in the same geographic region. We then tested if the rates charged for CTF eligible services were 50% below the rates charged to other business for the same service by comparing the rate was within the approved range for the service per the Rate Report.

5. Determine whether the carrier is in compliance with the CPUC's directives including Decisions 96-10-066 and 08-06-020, Resolution T-16742, and Administrative Letter 16 with respect to providing CTF discounts on approved CTF-eligible services.

Approach

CT provided a list of all the CTF-eligible services it provided in Fiscal Year 2009-10 and how these services related to the CPUC's list of CTF-eligible services (the "crosswalk"). We obtained feedback from the CPUC on CT's crosswalk to determine CTF eligibility and followed up with CT to clarify the definition of certain services. Then, for each

customer invoice selected through our sample, we compared the billed services per the invoice to the crosswalk to determine if CT calculated the CTF discount only on eligible services.

6. Determine whether the carriers are in compliance with the CPUC's directives, PU Code 884, and administrative letter 10b and 14, with respect to applying the E-rate discount before providing and claiming CTF discounts. Test claims supporting detail to determine if E-rate discount was properly applied. Obtain Form 486 per customer from Carrier and Verify the E-rate applied was properly supported by Form 486.

Approach

For each school selected for testing, we obtained and tested the Form 486 to determine if the customer had an approved E-rate, and the specific rate. We then tested whether CT properly applied the E-rate discount to customer's bills prior to calculating the CTF discount. For customers without an approved E-rate, we tested that CT used the average rate as promulgated by the CPUC at the time of the billing.

**Objective 2: Accuracy of the CTF Reimbursement Claims**

1. Determine the CTF discount (i.e. 50 percent) was properly calculated on the eligible services (after properly applying E-rate) in accordance with Resolution T-16742.

Approach

We obtained a list of all CTF eligible services provided by CT (the "crosswalk"). For each customer invoice selected in our testing sample, we compared the billed services per the invoice to the crosswalk. Using the crosswalk and invoice, we tested if CT calculated the CTF discount only on eligible services and used the proper 50% CTF discount rate.

2. Determine whether CTF claim payments agree to the carrier's claimed amount, the amounts of the CTF claim reimbursement that the carriers received agree to the CPUC's CTF claim payment records and that the CTF claim payments were deposited into the proper accounts.

Approach

We obtained claim payment information from the CPUC. Using this information we traced the amounts paid by the CPUC (per their claim payment detail) to the amounts claimed by CT. Next, we traced the amount paid by the CPUC to the amount received by CT and traced this amount to CT's bank account to determine it was properly deposited.

3. Determine if there was an underpayment or overpayment of CTF claims to the carrier. Recalculate interest due to or from the carrier in accordance with Resolution T-16763.

Approach

We compared the final, calculated CTF discount to the amount claimed on the CTF claim to derive an overpayment or underpayment from the CTF program.

## **Appendix B – Carrier Response**

### ***Finding 1: Pervasive Errors in CTF Claims***

#### **Management Response**

Historically, CallTower had gone through “spot audits” with the CPUC at a single customer level, with an itemized list of services. At that time, CallTower requested feedback from the CPUC that all filings were correct and received no information that any of these filings were incorrect. In 2011, the CPUC reevaluated of the services CallTower provides to customers. Through many discussions, a revised list of eligible services were provided to CallTower.

As a result, CallTower has implemented a procedural guide which lists out specifically which services to include as eligible for the CTF calculation. This guide provides a consistent methodology of mining data and factoring the appropriate discounts. Part of this process also includes the comparison between detailed data and actual customer invoices for accuracy. With respect to the new or changed services, and the application of the E-Rates, CallTower maintains a matrix (containing service offering SKUs and applicable E-Rate discount percentages), which is updated on a monthly basis prior to factoring CTF discounts. We review and evaluate all administrative letters from CPUC to ensure that our matrix is current and up to date with CTF eligibility requirements. Additionally, when we create a new service offering for our customers, CallTower contacts the CPUC to ensure we are complying with CTF eligibility requirements with respect to such new service offering. The information we gather includes non-allowable taxes and fees to ensure proper exclusion from CTF reimbursement.

### ***Finding 2: Mathematical Accuracy of Variance Reports***

#### **Management Response**

At the time of the audit, an automated process was in place in our billing system in order to calculate the CTF discount. As we began to see errors in the calculation of the discount systematically, we discontinued using the systematic calculation and implemented a robust manual calculation on the morning of billing close. As a result of the newly implemented manual process, CallTower made corrections to the previously invoiced discounts. The corrections addressed charges that spanned fiscal years and months within each fiscal year. A post billing review of all calculations was also implemented to verify the claim was correct, with steps added to correct the customer claim the following month if errors were found.

As noted above, CallTower has implemented a procedural guide which includes a step to manually review the data populated in the claim fields. Additionally, we have added a manual step to update “Average Monthly Claim for Fiscal Year 20XX-20XX,” located on the Variance Report tab of the claim form. This includes tracking and reviewing information in an Excel spreadsheet with the breakout of CTF claims by month for each customer.

***Finding 3: CTF Claim Rate Reports***

Management Response

CTF advised in early 2011 that CallTower was not in compliance with rate reports. CallTower rectified this upon notification.

In accordance with the governing CTF rules, CallTower now includes the price range for the un-regulated services provided to CallTower's customers. This information is now captured in the CTF Claim 'Rate Report Month'YY' tab.

***Finding 4: Incomplete Customer Data***

Management Response

As noted above, CallTower has implemented a robust review for the entire population of required data on the Customer Report. Moreover, CallTower's process when adding new eligible customers requires the addition of the customer and the associated application numbers to the monthly matrix updates. This process ensures that only eligible customers—i.e., those customers with an Application Number—are contained therein.

***Finding 5: Ineligible Service Claimed***

Management Response

CallTower has removed Conference Phone from its list of eligible services. Moreover, as noted in the response to Finding 1, CallTower regularly reviews the list of services provided to confirm that they are correctly flagged as eligible or ineligible.

***Finding 6: CTF Claim in Excess of Discount Provided***

Management Response

CallTower's established procedural guide provides for the calculation, application and claim submission for CTF related charges. As such, an internal control now exists whereby the same calculations applied to the customer's invoice is utilized in the claim form process—specifically, that the total sum of credit applied reconciles against the total sum of the reimbursement claim. This control now ensures that no such discrepancy occurs.

***Finding #7: Omission of 3 CTF eligible organizations***

Management Response

Prior to the 2011 audit, the communication between CallTower's Billing and Claims Processing departments was lacking a step to confirm new installs for all CTF eligible locations as these customer locations were typically added by CallTower's Customer Support department. Consequently, CallTower implemented a review of each customer at a corporate level to confirm all related locations had the correct discount applied. CallTower's established procedural guidelines as described in Finding 4 above represents an internal control to ensure that each customer is associated with the appropriate Application Number for the CTF Claim population.